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EDITORIAL

When the Hurly- Burly's Done

Within the past few weeks, especially since the tumult and the shouting of the elections have passed, there seems to have been a change in the attitude and actions of business men throughout the country. There is less gnashing of teeth and more looking for practical ways up from the depression. It makes no difference at all in the psychology of the matter that the depression is largely due to fear. Business is not really so bad as we have constantly been told, particularly by people who wanted to get into congress or other official positions, but the sentiment of dread is almost universal and people have been going about shaking their heads and prophesying evil. Lately, however, this condition seems to have been succeeded by a little more common sense and everyone is saying to himself or is being told by someone else that the thing to do now is to ascertain exactly what each one can do to better the conditions—and then, let us hope, each one will proceed to do what seems best.

A Scriptural Precedent

In the history of Israel it is written that King David, when the first son that Bathsheeba bore to him lay sick, besought the Lord night and day to save the child. He fasted and lay prone upon the earth and would not be comforted. But when the servants came and told the king that the boy was dead he arose, washed and anointed himself and changed his apparel and came into the house of the Lord and worshipped. Then he came into his own house and did eat. When the servants were

astonished and could not understand what it was that had changed the behavior of the king he said, "While the child was yet alive I fasted and wept for I said, 'Who can tell whether God will be gracious to me that the child may live?' but now he is dead, wherefore should I fast? Can I bring him back again?" Not long after Bathsheeba bore another son, whose name was Solomon. There may be a wide difference of opinion upon the elastic morals and versatile affections of this far-famed prince, but it is at least proverbial that he had wisdom and accomplishments much above the common. The child who died might have been a source of disappointment to his parents.

**This Wailing
World**

Now, this lesson taken from Scriptural sources could be applied with a good deal of force to what is going on around us today. There was a child of Prosperity and Recklessness whose name was Boom. But he fell sick—perhaps from over-feeding—and while he lingered between life and death Prosperity wept and prayed for him and Recklessness simply would not believe that anything was the matter. Then at last, long after the physicians had expected him to die, he finally passed away. Instead of rising and washing and making the best of things, Prosperity has been wailing and Recklessness cursing fate. There has been no philosophy. No one in the vociferous multitude of mourners has seemed to be able until lately to do anything except howl. A coyote could do as much and do it better. The misbegotten and malformed offspring of an unfortunate union is being carried to a grave but the pall-bearers will not lay the body anywhere. Instead they march on and on and here and there revelling in grief. They kick up such a dust that they blind themselves, and their din is keeping all the rest of us from settling down in peace. If they would only find a hole in the ground somewhere and inter the corpse it would be of benefit to all. Let us hope that when the obsequies are over the mourners will follow the example of the military and play joyous martial music marching back to barracks.

**The Morning After
the Wake**

The dead boom is not worth half the attention which its memory receives, and some people are at last awaking to the stupidity of this persistent woe. Accountants have now a great opportunity to do a good deed in a naughty world. They

can show the mettle of their pasture if they will. What is needed is the sound of strong, reliant voices and the logic of vision. There is no reason to despair in this country, and accountants, perhaps more than any other class of men, can make the truth appear. What has happened, anyway? A sorry combination of conditions has afflicted that portion of the world which it is the smug custom of the occident to describe as civilized. War was succeeded by revival of industry. Wages were absurdly high. Traders in securities reaped immense fortunes, on paper at least. And nearly everyone joined in a frantic jollification which was a sort of prolonged orgy of optimism. Now the law of action and reaction applies in the realm of the intangible as well as in physics. In the language of a childish game, what goes up must come down, and yet people seemed to think that the eternal verity of compensation had come to an end and all was to be up and up. Of course, after the jamborie had ended there was bound to be a morning after. The astonishing thing about it all is that people did not expect to have a headache when they awoke. Then came the elections with all that seems to be inseparable from party contests and it pleased those who were out and would be in to damn the office holders of both parties. No sensible human being paid very much attention to this sort of damnation, but in the aggregate it had a depressing effect. The elections being over, although no one knows exactly what is the result even yet, there is beginning a determination to stop howling and to get to work. If people will pay their bills, whenever they can, and buy as much as they can reasonably, and talk without tears in their voices, we shall come into a better day. No depression in America has lasted very long and this is not the worst depression which we have ever had. Consequently, it does seem reasonable to suppose that the resumption of activity and sound judgment must follow soon. Probably the recovery will be gradual, and indeed it is to be hoped that it will not be sudden—lest we forget.

**How the Accountant
Can Help**

Now the accountant has a tremendous duty to perform. To him men of business, executive officers, share holders, bankers and everyone else concerned must turn for the facts upon which to base opinions and to construct programmes of activity. It is no time for anything except absolute truth, and

that is the commodity in which every reputable accountant deals solely. The truth does not consist in a comparison of the statistics of this year with those of last year when all the world was crazy, but rather in a comparison of the statistics of this year with other years more nearly normal. There have been many computations and estimates of the effect which would follow the expenditure of small sums of money by each person each day and there have been some excellent suggestions for providing work for the unemployed by doing all the things that have been left undone and by generally clearing up. Probably the public will begin to listen to these admonitions and suggestions. Everyone really in his heart believes that we are going soon to enter into another era of genuine prosperity. In order to be ready for that happy event everything should be in repair so that when the time comes there may be no necessity to go back and waste time in doing the things that have been left undone. The most serious problem, as we have said before, that now confronts America is unemployment. Other countries, far less fortunate than are we, will not emerge from the darkness nearly so soon. But when America recovers there will be a beneficial effect upon the world. It is a good thing to have a prosperous neighbor, and now-a-days all nations are neighbors. What the accountant must do, if he is not to fail in his obligation, is to discover all the facts and tell them to those who should know them. There is no cause to worry. The facts themselves are sufficient indication of the national health. Let every accountant in his relation with clients do his utmost to prevent distorted vision and to reveal that underneath the present pall there is rich treasure.

**When Crime
Occurs**

One of the unfortunate effects of the lack of confidence which is afflicting the public is the stimulus which it gives to what has been described as the crime wave. When many men are out of work some of them are going to be tempted to do things which they would not do if they were employed. Other men in prosperous times have sought to take advantage of the apparent opportunities of the market and have committed crimes which might have remained undiscovered had prosperity continued. The decline of market values brings to light many a defalcation. A recent issue of one of the New York daily papers quite unconsciously emphasized this condition by publishing four consecutive accounts of bank

defalcations and security thefts, one of \$36,000, one of \$59,000, one of \$43,000 and one of \$5,000. Probably none of these things would have happened in normal times.

**Not a Time for Maudlin
Weakness**

One of the sad duties which confronts the accountant is the determination of responsibility for crimes committed by employees of clients. No one should enjoy the task of accusing a man or a woman of wrong-doing. Sometimes the circumstances make the whole matter absolutely pathetic. There is, of course, now and then someone imbued with the spirit of what the yellow press calls a "sleuth," who revels in detection of crime, but most of us like to think well of our fellow men and it is never pleasant to be disappointed. Then again there are often the complications which detection creates. There are ruined homes and broken hearts and grief incalculable, while the accountant who is the means of discovering the wrong-doing finds himself the instrument of justice. It is very easy to become sickly sentimental in such cases. Most accountants have to fight against a natural leniency, but their duty is quite clear and in the vast majority of cases it is done. The pity of it is that the accountant so often is not called in until the damage has been wrought. People in business are easy-going and they like to think that all their employees are honest, as, of course, most of them are, and so they neglect investigation and allow things to go on along the line of least resistance. Then when the crime is discovered everyone is worse off than he would have been if there had been investigation thorough and searching from the beginning. At a time like the present, the burden of responsibility upon the accountant is greater than usual and he must be on the alert to prevent, if possible, the perpetration of crime or to detect it as early as may be, for the good of everyone concerned. The many cases of defalcation which are being reported in the papers are only a small fraction of the actual number, but as time goes on it becomes increasingly difficult to commit fraud, and perhaps when the so-called crime wave subsides the number of frauds of all sorts detected and undetected will decrease. Criminologists tell us that no sane man commits a crime voluntarily. He is always induced by some combination of circumstances to do the thing which is wrong and in most instances a second crime is largely attributable to a desire to cover up the first offense.

This is particularly true in the case of defalcations and one wonders if the accountant could not here also render a valuable service to humanity by laying stress upon the moralities as he comes in contact with the innumerable employees of clients. It may be suggested to accountants that it would be far more agreeable to exercise a moral influence upon employees than to be compelled later to act as a policeman.

**When Banks are
Failing**

A correspondent in the middle west sends some interesting notes upon what he describes as the banking situation, meaning the difficulties into which banks, especially in the small towns, have fallen. He seems to feel that much trouble could have been prevented had there been thorough investigations in some states instead of merely superficial inspections by representatives of bank commissioners. He says:

"It is not the fault of the commissioner or the examiners. They are so limited by law that they can not make real examinations in the time allotted or for the fees prescribed by the statutes. The salaries paid examiners in many states are not equal to those paid tellers in successful banks. Bank commissioners are often appointed for political reasons and must in turn make appointments for lesser positions for semi-political reasons. . . . When numerous banks fail in a state the commissioner may be criticized when it is discovered that the failed banks have been weak for years, but the examinations were too hurried for the situation to be known. Cases have been known where two banks have been examined (?) in one day. One western state has a finance commissioner who recently demanded that all institutions under his supervision must have an annual examination by certified public accountants and a complete copy of their report must be sent to him. There were objections but the attorney general ruled that the commissioner was within his authority. . . . With stock-exchange demands for periodic audits, with investment houses refusing to underwrite issues without audits, with clearing-house examinations and independent audits of member banks, one wonders why bankers do not apply for their own ills the remedies that have been successful in other businesses. Surely a bank worth saving can stand the expense. . . . With bankers feeling the need of protection when making loans, isn't it fair to give depositors protection? Would not depositors have the same assurance from a certified statement as investors have when the investment banker supports his opinion of securities offered by a certified statement? Would it not be interesting to see if the

method bankers and investors use in making their investments does not offer practical security for depositors and directors not in close contact with internal conditions? If investment bankers find that accountants' certificates are helpful in inspiring confidence, will not bankers find that such certificates stimulate confidence? For example, if one bank in a community has periodic audits and publishes the facts, will not the public have more confidence in that bank than in the banks which refuse to give the public that protection? Is it wholly fair to demand that borrowers give security for loans and to give so little protection to the public? It is common knowledge in banking circles that there is much ignorance and inexperience among bankers. Would not thorough examinations give added security for depositors, add assurance to directors, render sympathetic assistance to inexperienced bankers and yield greater information to bank commissioners? If there is any doubt about the ineffectiveness of present methods, one has only to review the growing list of closed banks and the condition made public after failures."

**The Danger of
a Word**

We have quoted at length from the communication of our correspondent and we endorse heartily much that he has said.

To regard an audit as in any sense an insurance is, however, quite erroneous. The accountant must be careful never to let anyone regard his statement as a guaranty, because it is always merely an expression of his personal opinion. It would be quite as preposterous to expect a physician to guarantee a cure and to insure a patient against the recurrence of the disease or the appearance of another illness as it would to expect the report of the accountant to be an insurance policy. There has been a great deal of foolishness spoken and written about the insurance value of accountants' certificates. There is no such value and never can be, unless the accountant goes into the field of insurance, underwriting the risks of business. When he attempts to do that he ceases to be an accountant and becomes merely an insurer. The professional nature of public accountancy is absolutely incompatible with the gambling spirit. All insurance has an element of uncertainty and the underwriter takes a risk for which he receives compensation supposed to be sufficient to take care of all reasonably expected liability. But that is not the task of the accountant, and he should avoid even the use of the word "insurance" when speaking of the effects of his work.

**Bankers Should Know
Value of Audits**

With that exception, however, the comments of our correspondent have much in them which may receive serious consideration of bankers and accountants. It is indeed an extraordinary thing that the banker who relies upon an accountant's certificate—and now-a-days we are being told that the banker relies almost wholly upon the accountant's certificate—should himself fail to take advantage of the services which accountants can render. There are banks which are subjected to periodic audits but they are in a small minority. It is probably safe to say that in some cities there is not a single bank of importance which engages the services of independent auditors. This is particularly true in the case of banks in small cities. In the great centers of finance there is a better recognition of the advantages to be derived from audit, but still far from enough. As the country goes through its present depression and emerges on the further shore, there are and will be many bank failures due to causes as various as the weather, but a great number of these could be prevented if there were competent and frequent investigation.

There may be states in which the examinations conducted by representatives of the bank commissioner are invariably adequate, but if so we are unable to identify them. In every state of which we have knowledge, bank examinations are far too often merely a perfunctory rite. Unless there is some reason to suspect exceptional weakness, or possibly defalcation, the examinations which the state departments conduct must be superficial. Probably every reader of this magazine can think of one or two cases in which banks have failed simply because no one in authority had been sufficiently insistent to ascertain the facts. Then, when the crash came, an accountant perhaps was called in and everyone wondered how a concern in such a condition could have continued as long as it did. It usually appears that there was some inherent or acquired difficulty which a proper investigation would have revealed and prevented from becoming fatal. Bankers are very fond of telling the accountants of their manifold sins and wickednesses and accountants are acquiring a similar habit with reference to the bankers. A great assistance to better understanding and better business and the health of banks as a whole could be brought about if there were what our correspondent suggests, namely, a universal adoption by all

banks of the principle of independent audit conducted by men who have the time and ability to be thorough.

**A Liquid
Audit**

Once upon a time, a correspondent reports, there was a man who would be an accountant. It was many years ago, before any of the present members of the profession had gone into long trousers, and this man had no opportunity to know quite how to go about the matter which he desired to undertake. He called upon a brewing company—this alone indicates antiquity—and convinced the head of the concern that it was his duty to submit his affairs to audit. The result of the case has recently been unearthed in a so-called report submitted by the pseudo-accountant. The report with names omitted, although no one now alive has the slightest interest in the case, reads as follows:

Brewing Company,

Gentlemen

In handing you statements herewith, I would say that after careful search through your Books and various accounts connected with the Brewery, up to Jan. 1st, , I have found every account so systematic and correct. That owing to the desire of Firm to get through as expeditiously as possible I have eliminated all checking of Bank Accounts (Deposits and Checks) Whilst it is customary to consider this Account in an audit, I do not under the circumstances consider it absolutely necessary to do so, from the mere facts, 1st If an error existed in this, your Bank would notify you promptly.

2nd It would require time to go over all these Accounts.

Having found Books so perfectly correct in comparing all items up to date above mentioned (viz) Jan. 1st , I then devoted my time to the Ledger drawing down all balances of Accounts to Sept 30th

Statement of same I hand you herewith.

I also hand you statement of Loan and License Accounts showing dates of last payments on each, also statement of Rent Accounts. In reference to these account. (If I may be permitted to do so) I would suggest, (in the interest of the business) that these accounts, particularly the X. and X. Acct, be looked into more closely to payments on same, to avoid ultimate loss which as a general rule inevitably comes, from a long standing Acct. of this kind.

If however, it is your desire that? I should remain longer and go through all details, in the closing of your fiscal year accts bringing down to a fine point the cost of producing and cost of selling a Bbl. of Beer etc. I am at your service. This can only

be done accurately, be taking an estimate of all accounts for the year and with assistance of your Bookkeeper take about three weeks, time.

In reference to this however I would say, Mr. ——— can give you all these details correctly as soon as time is given him to work it out in a concise form.

I can not avoid saying in addition to above, that I certainly admire your Bookkeepers thoroughness and promptness in caring for the various accounts, that come under his supervision in connection with other work.

Respectfully yours,

One of the beautiful features of this report is its frankness. The auditor does not wish to offend anyone and he does not intend to do any work for which he is not paid. He evidently had some doubt of the brewer's willingness to pay more than a trivial amount, so he devoted his time to doing nothing of any importance, and then just to make sure that no one could be offended and that there might possibly be a return engagement, he threw in for good measure an expression of his admiration for the bookkeeper. It has been suggested that perhaps the auditor's trouble was not so much to find the cost of a barrel of beer as a commendable effort to test the merits of the merchandise. Some accountants believe that they should take physical count of inventory and certify its quality.